Pamphlet (Foreign Policy Association)

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The Young Plan in Relation to World Economy

discussed by

JOHN FOSTER DULLES
DR. HJALMAR SCHACHT

October 20, 1930

Pamphlet no. 68

FOREIGN POLICY ASSOCIATION
Incorporated
NATIONAL HEADQUARTERS
Eighteen East Forty-first Street
New York

For Building Use Only

New York Dinner Discussion

Pamphlet No. 68
Series 1930-31
November, 1930

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F59
no. 68

Speakers

JOHN FOSTER DULLES

Member, Reparations Commission and Supreme Economic Council, 1919

DR. HJALMAR SCHACHT

Former President, German Reichsbank

Chairman

JAMES G. McDONALD

Speakers' Table

Frank Altschul
James W. Angell
Ferdinand Eberstadt
Leland M. Goodrich
Ellery S. James
Pierre Jay
Ralph Jonas
Charles W. Kellogg
Dr. Edwin W. Kemmerer
Mrs. Sumner T. McKnight
H. Morton Merriman
Mrs. Helen Howell Moorhead
George W. Norris
Henry A. Perkins
Victor F. Ridder
David Sarnoff
Paul Scheffer
Dr. Paul Schwarz
Louis H. Seagrave
Eustace Seligman
Miss Mildred S. Wertheimer
Robert W. Williams

THE YOUNG PLAN IN RELATION TO WORLD ECONOMY

MR. JAMES G. McDONALD, Chairman

I HAVE been asked, during the course of the dinner, several questions about the FOREIGN POLICY ASSOCIATION. I am glad I was asked these questions because I had meant to answer them anyhow, but since I was asked them, I feel all the more justified in answering them.

The FOREIGN POLICY ASSOCIATION is not primarily a luncheon club, nor even a dinner club, though we try to give interesting luncheon discussions and dinner discussions similar to this one tonight. If I were to define the FOREIGN POLICY ASSOCIATION in a single phrase, I would say it undertakes to function as a conductor between the so-called experts and the public and those who shape public opinion, for in this country, as in most countries, there are millions of miles between those who are expert in international affairs and those whose business it is to write and speak on foreign affairs regularly, not to mention the public itself.

Now the F. P. A. functions in two or three definite ways. One of them is through meetings like this. Even when we have a very distinguished speaker like Doctor Schacht, we do him the honor of having another speaker, because it is one of our invariable rules to have two points of view at least, presented at a meeting. These meetings in New York are held ordinarily at luncheons on Saturday afternoons and—except during the football season when even we cannot compete for the radio—are broadcast over a network of stations which covers the entire country.

Similar meetings are held in sixteen branches throughout the country, and this year we have begun, here in New York, a new experiment of study groups, so that if any of you feel that you do not know, or cannot learn from open meetings, all you would like to know, we shall be glad to welcome you to the first of the F. P. A. study groups.

A second phase of our work is the radio itself. I was late tonight because I had to broadcast my usual Monday evening talk on foreign affairs over a nationwide network. I was just telling Mr. Sarnoff here how thrilled I was when I came back from Europe the other day and found

that my network, thanks to the National Broadcasting Company, included at the very beginning five stations on the Coast—Portland, Seattle, San Francisco, Oakland and San Diego—and seventeen other stations scattered throughout the country.

Through these broadcasts we undertake to give, as it were, a sort of History I course in foreign affairs. There is no propaganda, unless it be propaganda to try to get our people to see the problems of foreign countries as they appear to foreigners. Sometimes my plutocratic friends say, "You come at a bad hour—7:15; we are dressing for dinner, or we are going out to dinner." My answer to them is based on what a lady from Cincinnati told me the other day. She said, "It is a bad time when you speak; I am very sorry, I never can hear you, but the girls in the kitchen all listen in regularly." So I, for one, vote for the kitchen as against the drawing room, and I feel very deeply that the radio, which is a medium of communication comparable in its potentialities only to printing, has not yet been given its proper estimate by educators in this country, and I consider it a great opportunity to be permitted through the radio to compete with such eminent publicists as Mr. Hearst and the *Saturday Evening Post.*

Now a third phase of the FOREIGN POLICY ASSOCIATION's work, and it is most important, is the work of the Research Department, headed by Mr. Raymond Leslie Buell, formerly of Harvard. He and his associates are men and women of professorial rank who specialize in following developments in different parts of the world. They are, for the most part, not ambitious—or if they are ambitious they do not have time to add to the store of volumes on the shelves of the libraries. Their task is less noble than that, and vastly more useful. It is to make available to the editors and those who write and speak on foreign affairs regularly, the background facts in the important news developments of the day.

For example, the week before the German elections an INFORMATION SERVICE report analyzing the parties in Germany, the chief leaders and the issues at stake, was on the desks of the editors of every daily paper in the country having a circulation of 10,000 or more. Miss Wertheimer in her effort there did not undertake to say how many votes Mr. Hitler would have, but she did undertake to make it easy for the editor to interpret the results of that election, and it was rather thrilling to be in Geneva the morning after the German elections and to find the F. P. A. INFORMATION SERVICE circulating around in the press room, the best seller of that day.

These INFORMATION SERVICE studies are meant to be non-controversial, to be as one might say, a lawyer's agreed statement of fact. Take for instance, Mr. Buell's report, "The American Occupation of Haiti." Mr. Lèger, one of the prime movers against the American occupation, wrote:

"It constitutes the most comprehensive and impartial document yet published," and that view was shared by some of the members of the American Commission.

But perhaps even more remarkable was the agreement about our study of Alsace-Lorraine. The editor of *L'Europe Nouvelle,* Mlle. Louise Weiss, wrote: "It is erudite and objective treatment which you have accorded to this difficult problem," and at the same time, the editor of *Vossische Zeitung* wrote: "You have dealt with astonishing objectivity and have presented a highly valuable exposition of this difficult and complicated question."

One example of what you might not expect in the way of agreement was a report on "France and Italy in the Mediterranean." The Fascist authorities liked it, and Mr. Salvemini liked it, and I know of nothing else that the Fascists and Salvemini like at the same time.

And then a recent report on Russia by Miss Michelis, on "The Russian Agrarian Problem," was spoken of by Mr. Campbell, the agrarian expert, as the most complete and comprehensive statement of this agricultural problem that he had read; "It has the same merit and conviction that was contained in that splendid speech I heard you (referring to Miss Michelis) make last winter in New York." The speech was at one of our meetings.

But Mr. Campbell's judgment about that report was shared by the Bolsheviks themselves, and by the anti-Bolsheviks.

To conclude, as far as this is concerned, I should like to read you just a line or two from a recent letter from Newton D. Baker, referring to a report called "Democracy in Japan": "Like its predecessors, it is intelligent, informing and helpful. I know no other series now being published anywhere comparable to this and am writing both to express my warm appreciation of the excellence of the job and my hope that you are having a very wide circulation, particularly in libraries, for these valuable papers." And about the same time there came a letter from the Public Library of Los Angeles, in Southern California, as follows: "This library finds your publications so useful that we would like to take out two memberships instead of one as formerly."

And now to the last question which was asked me and which I was trying to explain just a moment ago to Mr. Pierre Jay, and that is the question of the financing of the F. P. A. I rarely speak about this subject, and do it only with the greatest hesitation. Our budget is $170,000 this year. About $50,000 of that comes from $5 and $10 memberships scattered throughout the country. The balance comes from larger contributions ranging from $100, which is given us by about two hundred people, up to $25,000 which is given by one very intelligent American.

Those of you who are not members of the FOREIGN POLICY ASSOCIATION can become members if you can convince the young ladies outside that you have the necessary intellectual qualifications and the modest amount of $5 or $10 or more. We welcome you as members, and we welcome any of you who would like to help in the larger job of raising the budget.

Now tonight our subject is "The Young Plan in Relation to World Economy." We have two speakers, Mr. John Foster Dulles and Dr. Schacht. It is a great pleasure to introduce Mr. Dulles as the first speaker, because he is one of the Americans whose record bears examination from the very first. When Mr. Dulles was a member of the American Commission at the Peace Conference he stood out staunchly in favor of elimination of items from the Reparations Bill which more than any other single item made the Bill absurd and impossible. I refer to the items of pension and separation allowances. Mr. Dulles was overruled, and one result was that the bill assessed against Germany reached the size of astronomical figures, but in those days many bankers were not as good economists as they were last fall, and since 1919 the figures as to what Germany can pay have been steadily reduced. Throughout that whole time Mr. Dulles, if he were inclined to use such words, might have said, "I told you so."

Therefore it is a great pleasure to introduce Mr. Dulles who was wise even eleven years ago, and we hope that he is no less wise tonight. (Applause)

MR. JOHN FOSTER DULLES

MR. CHAIRMAN, LADIES AND GENTLEMEN: Mr. McDonald failed to mention one of his greatest testimonials which is that he never fails to pick a topic for a FOREIGN POLICY meeting but what it immediately becomes the subject of an international crisis. He seemed to be taking something of a chance tonight, because the whole reparation topic was buried about a year ago. When the Allied governments at the Hague adopted the Report of the Young Committee, they officially interred reparation as a topic which would thereafter be of any interest to politicians or to the general public. Germany's payments were thenceforth to fall into the ordinary category of commercial transactions which are a matter of routine and not of public discussion. They abolished the Reparation Commission and substituted the Bank for International Settlements. They went further and sought even a new terminology, so that the word "reparation" would not thereafter have to be used in connection with Germany's payments.

But perhaps Dr. Schacht will tell us that reparation is like a rose, at least in the sense that by any name it smells the same. At any rate we have the

problem still with us, by whatever name you call it, with the same atmosphere of controversy and the same unpleasant manifestations that have marked this problem during the past decade.

Why is it that this has happened, that when the ink is scarcely dry on the Young Plan, the whole subject is apparently reopened and is a matter again of public and political controversy, with the political policies of the countries of Europe again revolving around this subject?

I think that part, at least, of the responsibility must be placed upon the Young Plan itself, and I do not refer to the substance of the Young Plan so much as I do to the matter of its form and to the atmosphere surrounding its adoption. The Dawes Plan had been a carefully reasoned document, setting forth lucidly the economic principles upon which it was based, and proceeding with a reasoning that was cogent to its conclusions, and it commanded immediate, world-wide confidence.

The Young Plan, on the other hand, was a document which merely set forth its conclusions without attempting to support them with economic reasoning, and the Young Plan was adopted in an atmosphere of political bitterness, so that it was inevitable that it should have failed to command the same immediate confidence that was inspired by the Dawes Plan.

Now I do not say this in any criticism of the authors of the Young Plan. The interesting reason for the differing character of the two plans lies, curiously enough, in the fact that the Dawes experts thought that they had a definite economic formula which could be applied but merely lacked the factual data to permit of applying it accurately. When it came to the Young Plan, the factual data was available, but it threw grave doubt upon the economic formulae which were regarded as basic in the Dawes Plan.

That is notably the case with respect to the question of the extent to which credit and security operations could properly be relied upon as a means for Germany discharging her reparation obligations.

The result was that when it came to the Young Plan Conference, the experts were genuinely at sea as to the correct economic formula to apply to measure Germany's capacity to pay, and consequently the conference very quickly degenerated from an economic conference into a political conference, and the results ultimately expressed in the Young Plan were arrived at, not as a result of economic reasoning as to Germany's capacity, but as a matter of politics, as a result of political bribes and as a result of political threats.

For instance, as a type of the political threat, there was the concentrated withdrawal of French credits to Germany at a critical time for the Reichsbank and for the stability of German currency, and as a matter of political bribes, there was the promised earlier evacuation of the Rhine-

land. All those things may have been very well, but at least they did not inspire immediate confidence in the economic soundness of the results. Not that the results expressed in the Young Plan may not be all right, but the Young Plan, unlike the Dawes Plan, failed to carry conviction from its own terms.

Now while some responsibility for the present situation is attributable to the Young Plan and to the methods of its adoption, responsibility must also in a large measure be placed on the mistakes and blunders of German internal finance during the last few years. For several years now Germany has gone on creating increasing budgetary deficits, the government each year spending more money than it took in, and the reason for that is not primarily the charge of reparations on the budget. The reason is rather to be found in political raids on the treasury of what we would refer to as the "pork barrel" variety. Each year there have been increasing allowances for pensions and various economic aids and social insurance, with the result that within a five-year span, the annual expenditure of the German Reich for the item of pensions and social insurance alone increased by as much as over four hundred million dollars per annum. In addition large grants were made by the Reich to the various states for expenditure by them without accountability. It was the financial crisis brought about by these unbalanced budgetary expenditures which precipitated the recent general elections in Germany.

Now, in general elections held at a time of financial crisis and economic depression it is almost inevitable that the politicians should seek to place the blame on external faults rather than on internal blunders. The German politicians in that respect are no better and no worse than politicians the world over. There is hardly a country in Europe today where the people have not had impressed upon them the fact that their domestic ills are primarily attributable to the United States and its policy of tariff and debt collection. I seem to have heard while I have been abroad that there was some allegation even in the United States that our own economic ills could largely be attributed to such insignificant items as Russian "dumping." We are all the same. When we get into trouble we always seek to place the blame on somebody else, and of course that is what occurred in Germany.

Now what was said in Germany was the more plausible and carried the greater influence because the Allies have allowed Germany to gain the moral offensive on the two great issues of reparation and disarmament. You will recall perhaps, Mr. McDonald has alluded to it, that the pre-Armistice Agreement with Germany bound Germany to make good the material damage done to the civilian property in invaded territory, but that Germany was not to be held liable for the war costs and for the war debts of the Allies.

That principle was expressed—in exceedingly diluted form, but nevertheless expressed—in the Treaty of Versailles.

Since then the whole basis has been changed until under the Young Plan Germany's reparation liability is calculated primarily and frankly in terms of the war debts of the Allies, and particularly their debts to the United States.

Now it is probably true that the amounts which Germany was held to pay under the Young Plan do not exceed the amounts which she might have been held to pay under her own interpretation of the pre-Armistice Agreement, but the fact is that the theoretical basis of calculating that liability has been changed to a basis which affords a plausible opportunity for the German politicians to attack within Germany the moral foundation of the present reparations settlement.

On the subject of disarmament, Germany was disarmed under a provision of the Treaty of Versailles which provided that German disarmament would be the first of a general disarmament of all the nations.

Germany has been disarmed for nearly eleven years and during that time not a substantial step toward disarmament has been made by any of Germany's neighbors. There may be good reasons—I am not discussing that, but only the result which has made it very easy, within Germany, to make it appear that the whole thing was a trick, to get Germany disarmed, and that the other nations have never intended to carry out their part of the bargain, but intended to preserve the power at all times of coercing Germany.

The Allies can scarcely have expected to hand Germany two issues like that and not see the German politicians make something out of it. And they did use them during the recent general elections, with a result which seems to indicate, at least on the surface, a recrudescence of bitterly anti-foreign feeling within Germany.

Now, unfortunately, those election results, natural and inevitable as they seem on analysis, have had most unfortunate repercussions within France. The French people feel that they have been experimenting with a policy of conciliation toward Germany. Of that policy Briand has been the great exponent. They feel now that that policy has been demonstrated to be a failure and that the moment that France adopts a policy of conciliation toward Germany, it is interpreted within Germany as a policy of weakness and leads to the militaristic element regaining the upper hand and regaining a great popular following. The result is that today the Briand policy of conciliation is generally condemned in France and there is a very distinct reversal toward the Poincaré policy of the strong hand toward Germany.

That feeling in France again has its repercussions in Germany, and so the vicious circle goes on, the vicious interplay of forces between the two nations.

Now, the picture which I draw is not a happy picture. It can readily lead to pessimism and has led to a great deal of pessimism. I give you that picture not because I myself am pessimistic, but firstly because I give the picture as I see it, and secondly because on analysis, I think it will be apparent that the difficulties are of a character which are largely psychological and consequently subject to ready reversal.

The Young Plan has been a psychological failure, but there is still no considered opinion in the world that the provisions of the Young Plan will prove unworkable. In Germany we have a bad sentiment, but it is the froth of a general election. Even the difficulties of the German budget have not yet reached a point where they are insuperable, in fact they can readily be dealt with by a firm and courageous government which is willing to cut off extravagant and political expenditure.

Indeed, if we look at the situation from its material aspects, we can readily see that the underlying conditions are far more satisfactory and favorable than they have been during almost any preceding period of like crisis.

Germany has made enormous progress under the Dawes Plan. She has brought back her industrial equipment to the highest state of efficiency and coordinated it through the so-called process of rationalization. German exports have been increasing at a most satisfactory figure. For what I believe is the first time in history, German exports have surpassed the exports of Great Britain. German exports now exceed imports, a condition which did not prevail even before the war. The German national income has increased and is now estimated by German authorities at seventy milliards of marks a year. The German public income has correspondingly increased, with the result that the reparation charge now constitutes a much less percentage and a much more bearable burden than has been the case for several years past.

The present reparation charge represents approximately three per cent of the national income of Germany and approximately ten per cent of the public income of the Reich, the states and the communes.

The only element about the situation which is really serious is, as I have indicated, the psychological element, and the feeling of pessimism and despair which pervades a great part of Europe. But if history has shown us anything, it has shown us how easily such a state of mind can be changed and what apparent economic miracles can be wrought under courageous and intelligent leadership. If we think back at the situation

of France in 1926, when the French currency was slipping apparently to nothing and the nation was at the edge of a financial abyss, what was it turned that situation? It was no change in the fundamental economic conditions. It was the fact that there came back into control of French financial affairs a single man, Poincaré, who commanded the confidence of the world as to his financial integrity and ability, and over night changed that French situation from one that seemed hopeless to a situation which has now brought France back to where she shares with the United States supremacy in financial power and financial security.

I have alluded already to the Dawes Plan and to the miracle that was wrought by that Plan through the change of psychology which it introduced to the world. When the Dawes Plan was produced, Germany was in a hopeless depth of despondency and economic despair. Within a few weeks after the Dawes Plan was published, the state of mind had so changed within Germany and without Germany, that bankers who a few weeks ago had regarded Germany as hopelessly bankrupt, were crowding each other's shoulders in a rush to Germany to loan her money.

As striking an illustration as any has been furnished by our guest of honor tonight, and I take the liberty of recalling the conditions and circumstances under which I first met Dr. Schacht. It was in Berlin in the early spring of 1920. Germany was in the throes of despair and pessimism as full realization had just come over the nation as to the real consequences of having lost the war and the consequences of the terms of the Peace Treaty.

It was the moment of the Kapp *Putsch,* when a band of militarist leaders had come in to Berlin and seized the central authority, driving out the legitimate government, and it was a time of the general strike which followed as an incident of the Kapp *Putsch* which stopped every wheel of industry within Germany and cut off all means of communication, transportation, light, water, everything. There followed the Red outbreak in Saxony and in the Ruhr which put great sections of industrial Germany into the hands of Red revolutionists. It was a time when almost everyone with whom I talked in Germany—and I talked to the leading bankers and industrialists—felt that the situation was hopeless, and that the only thing to look forward to was a world-wide catastrophe which would wipe the slate clean, and while causing all nations to start again from primitive beginnings, would at least give Germany an even chance.

Of all that I met in Berlin, Dr. Schacht alone looked forward with hope to the future and felt it worth while to do something, to try to save something out of the wreckage which everybody else felt was permanent. I sat in his rooms in Berlin, at this time that I refer to, when our conversation was interrupted by the rattle of the machine guns sweeping the streets of Berlin. His thoughts were not on that, but his mind was working on

plans for financing the importation of essential raw materials into Germany which would again put industry in motion.

That is the quality which brought him to leadership and which permitted him later to perform the miracle of stabilizing German currency through the Rentenmark, at a time when this was impossible by all the rules of economics and finance. It was before the time of the Dawes Plan. Germany's budget was unbalanced. Her unfavorable balance of trade was enormous. Her foreign obligations were colossal, and worse yet, were still even undefined. Germany had no gold or other precious metals upon which to base a currency. Yet in the days of those conditions Dr. Schacht produced and held stable the Rentenmark. It was ostensibly based upon land. Any economist or financier will tell you that you cannot maintain a stable currency based upon land, and they are right, because the Rentenmark, purporting to be based upon land, really was based upon, and drew its stability from, confidence in the integrity and intelligence and in the character of Dr. Schacht. (Applause)

There is in Germany today a noisy minority which clamors for repudiation of Germany's obligations. I ignore that minority. It is inconceivable that Germany should repudiate, consciously and deliberately, obligations which have been solemnly adopted after a national plebescite. The danger is not a danger of conscious and deliberate repudiation. It is a danger of what I may refer to as an unconscious repudiation. For there are many in Germany that are weary and tired. They are oppressed by a sense of the difficulties which are still to come and to be overcome. Those difficulties are real. They may even require some adjustment of the present plan of settlement. But they are difficulties of an order which become insuperable only in an atmosphere of lassitude and pessimism.

It is entirely possible that Germany might come to a pass where there would be an impossibility of fulfillment of her obligations, an impossibility which would be brought about merely by an atmosphere of depression, pessimism and defeatism in Germany, an atmosphere in which no economic problems can be solved. There are leaders in Germany who encourage such an atmosphere as a vehicle for ridding Germany of her reparations obligations. If that policy should succeed, and if Germany as a result of an impossibility of performance thus caused should rid herself of her reparation obligations, the leaders who caused that result would be guilty of a great disservice to the German people. For what is it that keeps Germany great, despite the loss of the greatest war in history, the reduction of her territory, and poverty? It is the self-confidence and self-reliance of the German people and the ability to inspire confidence and command credit abroad. That is Germany's greatest asset, and if that were traded against a few milliards of marks, Germany would indeed have sold her birthright for a mess of pottage. (Applause)

THE CHAIRMAN: Those of us whose memories go back as far as the end of the war, must, I think, in estimating the work of Germany since then, agree that as a whole the German people since the war have shown an almost unprecedented degree of fortitude and courage, restraint and inventiveness, and of all the men who have been leaders in this period, none have performed greater services within Germany than Dr. Schacht. I should like merely to recall to the minds of some of you the conditions in Germany in 1923, when the mark was falling so fast that if you were economical you would go out and shop in the morning and then pay your bills in the afternoon, thereby reducing the cost of what you had bought by fifty to seventy-five per cent. It was in the midst of that situation, as Mr. Dulles has said, that Dr. Schacht, through extraordinary resourcefulness and courage, re-established the German currency, and from that time until a few months ago the head of the Reichsbank has been Germany's great financial leader. Because of that great past, because of what many people are confident may be an even greater future for Dr. Schacht in Germany, it is a pleasure to welcome him here tonight. Dr. Schacht!

DR. HJALMAR SCHACHT

MR. CHAIRMAN, LADIES AND GENTLEMEN: My friend Dulles will forgive me if I follow him only in part of his statement. I have always abstained, being a foreigner in this country, from speaking about the political or the moral side of the reparation problem or of the Treaty of Versailles, and I think it is due to that attitude that I have been able to make a good many friends outside of my country. I have never complained, I have always tried to explain. Furthermore I have a much greater belief in economic reasons than in political, because I think the latter are based on sentiments and the former are based on facts, and sentiments at given times always have to come back to facts.

I am in the somewhat delicate position here of defending myself against my friend Dulles for having signed the Young Plan, but, ladies and gentlemen, I think he gave very good reasons for the others and for my signing it. If you would kindly recall the situation of a year ago, I think there is no better explanation than to think of what would happen today if because of her bad situation, Germany should be obliged to stop the reparation payments with the French and Belgian troops still standing on the Rhine. I think we would have thrown the whole reparation problem into the old, may I say pre-Ruhr atmosphere. In spite of the faults which were committed at the second Hague Conference, there is one reassuring

thing today, that is that if the reparation problem comes up again, as Mr. Dulles has quite rightly said it will, it comes up under more favorable political circumstances than before.

When discussing the *economic* side of the Young Plan and the reparation problem in connection with the world-wide depression, to use the expression of our Chairman, I start from the fact that world-wide depression is due largely not only to the reparation problem, but also to all the problems which are the outcome of the war. The fact that Russia is out of the market, that India and China are trying to get away from Europe, and that eastern Europe is in a state of permanent unrest—all these factors have of course an enormous reaction upon world trade and ultimately fall back on this country also, in spite of her big internal market.

I agree with Mr. Dulles on the great economic progress which Germany has made, but I would like to deepen that a little bit by calling your attention to some facts, and I beg your pardon for perhaps annoying you with some figures, but they will not be too many.

Mr. Dulles has rightly said that our national income has gone up. He said seventy millions of gold marks; it may be between sixty and seventy, but that does not matter, because it does not mean so much in a country of sixty-three millions. One says that the reparation payments are only a small percentage of that national income, but if you think of the fact that the income of the lower classes in Germany is already very low, then I think each one per cent which you have to give away means something. In fact, it is the broad class of industrial workmen which has profited by the revolution in Germany after the war. On the other hand, the middle classes have entirely disappeared. They have become extremely poor, and it is from that part of the country that Hitlerism received its main backing.

If we take the real purchasing power of wages of the broad class of industrial workmen in Germany, we find that this has increased to one hundred and ten or twenty per cent of the pre-war level. But how does the middle class stand? Let me just give you an example where statistics are available, from the state and municipal officials. The lower grade official is earning now almost exactly what he earned before the war. The middle class official is earning between eighty and eighty-five per cent of the pre-war income, and the upper class official is earning between seventy and seventy-five per cent. This means that the lower you go, the better the standard is maintained—but the higher the class is in comparison with pre-war times, the less it has maintained the pre-war level. That means that there is no steady element in the middle classes today, because this class is the most dissatisfied with the present situation.

Now, quite rightly Mr. Dulles has pointed to the waste of money in governmental and municipal budgets. I am justified in saying this publicly because I have said that for seven years now, on every occasion, and very much to the discomfort of the politicians. But there may be some excuse also in that line. The fact is that those parties which always supported the government in giving in in foreign affairs toward the Allied powers, were the socialistic parties, the parties of the Left, and I think I am right in stating that the French, for instance, have always wanted the socialistic parties to stay in power, because it was rather easy to deal with them in foreign affairs. They were the so-called opponents of the nationalists. But on the other hand, they were not at all willing to procure the money for which France was asking.

The fact is that the Socialists were always willing to sign the check but that they were always hoping that others would pay it. The labor classes in Germany had always believed that reparation was a problem for the rich people, that they did not need to care about it, because they were not likely to be affected and they thought they must not be affected. With so many rich people in Germany they believed that you need only tax them, and the reparation would be paid.

It is only very lately, and this is partly, in my opinion, responsible for the decline of socialism at the last elections that the truth was discovered. I may recall to your memory that in the former Reichstag the Social Democrats, the Trades Union party, commanded one-third of the Reichstag, and that today they only command one-fourth. That shows that the socialistic wave, in my opinion, is going down now.

But if you come to examine whether the socialistic idea was right, that rich people had to pay the reparation and that the broader classes of industrial labor were not going to be effected, then I may point out that among sixty-three million people in Germany there are thirty-three million people in all who earn some income, either from interest on capital or from wages. The total number of income earners in Germany is thirty-three million, and out of these 16,600,000 have an annual income of less than three hundred dollars. Out of the remainder there are 16,300,000 who do not earn more than two thousand dollars. And those who earn more than two thousand dollars are 369,000 people altogether in Germany, of whom only 80,000 men earn five thousand dollars or more.

Now the reparation payments on the average are two billion gold marks a year. If you want to get this by taxing the rich people, you must take away every dollar, every pfennig, which is earned beyond five thousand dollars. If you take everything away which is earned beyond that, then you just get the two billions of gold marks.

This means that these eighty thousand people, if you would proceed that way, would leave Germany by the next fast train for some foreign country.

That proves that you cannot tax rich people alone but that you must tax the poorer classes, too, if it be only to a certain degree, say for a few per cent.

Now, if you earn only three hundred dollars a year, then I think you would fight for every one per cent which is taken away from you. You may see from the present news coming from Germany, that when the intention was declared the other day of reducing the metal workers' wages in this present crisis by eight per cent, they went on strike. They are not willing to stand that. This shows that the reparation problem, the internal payments of reparation in Germany, becomes a very great *social* question and not only an economic one.

There is another question perhaps to be discussed, the question of whether or not the payments can be made out of transferring to the Allies some substance of the German country of economic value.

Now, what you can shift to another country is of course only liquid assets; you cannot shift a house, you cannot shift any real estate, you cannot shift any farm. But all that could be shifted was taken away from Germany after the war. We lost about twenty-five billions of gold marks of foreign investments because the idea was brought up that not only during the war but also as the consequence of the war, you were allowed to take the private property of your enemy.

I feel that such procedure means doing away with some of the most fundamental bases of human life and human society. But it has been done. And you remember that even at the Hague Conference the last balance of private property which was not yet distributed was taken away from us, twelve years after the Armistice.

In addition ships, coal, locomotives, dye stuffs, all these deliveries in kind, as you remember, were taken away from Germany after the war in order to pay the so-called reparation. The Institute of Economics in Washington has estimated these payments at another twenty-five billions of marks. If you add to that what Germany had to pay to the neutral countries for the goods which she bought from them during the war, then you will easily see that there is no liquid substance left which you can take away from Germany. So there is only one way out, and that is that Germany must *earn* the money which she is asked to pay today. And that is the great thing which I have always relied upon, when fighting for an economic solution of the problem. I have always pointed out that if the world asks for payments, then the world must let Germany earn the money and the money can only be earned by some surplus of exports as the Dawes Plan and the Young Plan and all the economists of the world

have always stated correctly. I remember that when I came to the Paris Conference, I had on the first day two very nice talks with some of our foreign friends. The one said to me when we entered the room, "Dr. Schacht, now this is a political conference." I said, "Well, we will try how long we can make it an economic conference."

And the second was, when I met Sir Josiah Stamp who said to me, "Now, we shall have a hard stand here." I said, "Oh, no, *I* shall not. All I need to do is to quote what you have written in the last three years about all these questions," because he had always stated that one could not expect payments from Germany if Germany were not making an export surplus.

Now I am sorry to say that I do not quite share the optimistic view which my friend Dulles has taken tonight but I agree with him that Germany has made enormous progress since 1918. In the year 1920 Germany had fallen back to about three or four per cent in the world's trade, and it is astonishing to see how she has regained the entire twelve per cent which she had as her share in the trade of the world before the war. But, ladies and gentlemen, it is very striking to see that if you go back to prewar times, in spite of the enormous increase in Germany's prosperity during those years, Germany has never had more nor less than twelve per cent.

That means that her percentage in the world's trade remained almost perfectly stable. It oscillated a little around twelve per cent, a half per cent down or a half per cent up. So that I am fully convinced that after having regained the twelve per cent now, it will be very difficult to increase that percentage, and to what percentage it must be increased I would like to explain to you by giving you some more figures.

The *import* surplus of Germany during the last six years has been on the average two billion marks a year. It is true that this year we have an export surplus, but once before in 1926 we had an export surplus. This was mostly due to the fact that the English coal miners were on strike for a rather long time. But we had at other times too for one month or two an export surplus. This always happened when there was a general decline in Germany's trade. I would like you to compare the figures of German exports with the figures of German imports during the same time, and you will find that at such times we have not been buyers, any more, of raw materials—American for instance—but that just as today we were living on our stocks. We are, under home market depression, forced to export and we obtain a surplus only by decreasing our imports.

That is what has happened, we have exported while living on our stocks, and I do not see that on the average there is great prospect of lowering the nearly two billion marks of yearly average import surplus which we have had so far.

If you take these two billions of import surplus which have to be made good, if you then take nearly one and a half billions of gold marks which we have to pay on interest and amortization for private loans which have been given to Germany's industry, commerce, shipping lines, and to the municipalities and the Reich, if roughly speaking you then add the two billions of reparation, that means that you have to make good, payments of more than five billion marks a year by an export surplus.

In order to do this our exports must rise still more than that amount because in order to make the export surplus, we must import the raw materials wherefrom to manufacture our goods. So to reach the aim we have to increase the present German trade by nearly fifty per cent. I think that the Allied countries, (especially Great Britain, which for the first time, as Mr. Dulles has told you, we have surpassed) will not stand that; I also doubt whether America would like to lose on her foreign trade in order to allow Germany to have a bigger percentage on the world markets. So I doubt whether anybody will be satisfied in the long run with Germany's augmenting her foreign trade at the cost of others. I think it will do more harm to the others than they would like to stand. And probably more harm than would be made good by the payment of reparation.

That is why I have the firm conviction that if things would only be dealt with on economic lines, the time will come one day when reparation will stop by itself. That is why I have always considered the Young Plan to be, so to speak, a self-liquidating plan, because we included in the Young Plan two good things, ladies and gentlemen, which perhaps Mr. Dulles will also recognize as not so bad.

The first thing was that we said the reparation problem is not a problem of Germany alone. It is a joint problem, and the others must help to solve it. So it is an obligation like the disarmament obligation; if the others do not disarm, I am sure that sometime some German government will draw some consequences from the non-disarmament of the others. And I think if the others do not help Germany to pay reparation by getting broader markets outside of the country, then Germany may one day say: "Now, here you are. We are doing our best, but what have you done?" So that may lead to another economic discussion.

And then there is one other thing which I think is not so bad, and that is the Permanent Advisory Committee which was set up by the Young Plan. You see, we made the Young Plan definite and complete by making it as incomplete and indefinite as possible under given circumstances. We set up machinery which was meant to work any time it was wanted and because it was permanent and complete machinery, we enabled the politicians to say: "This is a complete and definite settlement." The Advisory Committee will certainly meet sometime and if Mr. Dulles says that we are in

a new reparation crisis, I say, and I think he will agree with me, that it must not necessarily become a crisis. The German Government is not only allowed to declare a moratorium*—they are not obliged to *ask* for a moratorium, they are allowed to *declare* it—but aside from that, they are allowed to have this Advisory Committee convened at any time *without* declaring a moratorium, and I do not see why, perhaps, it would not be a good thing for the Advisory Committee to meet some day without Germany declaring a moratorium and to see what this world-wide depression means in connection with reparation payments.

Thereby we may resume discussion on reparation without upsetting the world again, and that is just what we need. We must not always excite people. We must prepare them in time for what the economic consequences of a matter might be. We must tell them that they must not be frightened if something like a new discussion of reparation takes place in the future. It is not necessary for this to become a new crisis. We will settle it if we behave reasonably, we will settle it without a crisis, but of course becoming reasonable is quite a demand.

I would like to dwell upon one last element before closing, that is how the payments have been made so far. I stated to you that we had to pay on the average two billions every year on reparation, that we had to make good two billions of import surplus, and between one and one and a half billion on the already existing loans.

We have made these payments so far entirely out of borrowings, and it is astonishing to see how the payments for the import surplus, the payments on reparation and the payments on interest are exactly equal to what we have borrowed in the meantime.

We have borrowed twenty billions of marks, equal to five billion dollars, exactly half of which has been paid on reparation and the other half on the deficit of the remaining balance of payments. There are some offsets. Among other items we have made some investments in foreign countries in order to maintain or to rebuild our foreign trade, but on the other hand, there have been some investments made by foreigners in Germany.

Now what I am wondering about is how long that is going to continue? And, ladies and gentlemen, that is the only thing which I would like to impress upon you tonight: that you must not say that the responsibility is entirely with Germany. I have maintained my rather simple reputation as an honest business man in the world by never telling something which was not my firm conviction and which was not the truth. I have made a great many friends thereby among economic people, bankers, industrialists, economists, but I have also made a great many opponents, chiefly in

*In speaking of a possible moratorium, Dr. Schacht referred to a moratorium on the so-called "conditional annuities" provided under the Young Plan. Cf. p. 22.

the political world, but, ladies and gentlemen, is it not a fact that in order to maintain peace in the world, the Germans have had so far always to give in to what the others demanded? Don't you think it was worth while to sign the Young Plan in order to get rid of the occupation? Can you think of a people which still has some self-respect, standing for having its most important industrial area, one-sixth of its total area—occupied by foreign troops fifteen years after the war? I cannot think of it. And I think that at least the Allies are as much responsible for that policy as the Germans are. It is not fair to blame this policy upon the Germans alone. Now, all that I want to say is this: we Germans want to maintain our honesty as orderly business people. I said the other day, and I repeat it here, that we want to pay every cent which has been invested in Germany by a private person, a private bank or private business man or whoever it may be. But if the politicians ask for permanent payments and if they force us always to apply to private people to lend us the money in order to pay the politicians, then I do not know what will become thereof, because one given day the moment must come when the German Government will say: "Now, in order not to be obliged to betray my private lenders, I must decline to pay the politicians *unless they let me earn the money with which to pay them.*"

That is the only serious situation, ladies and gentlemen, which we have to face.

How long is that going to last? I think that the present attitude of our government is to give the world another chance to talk these things over *without* upsetting trade and commerce, without upsetting the world again, and perhaps they are right in doing so, and all I can hope for is that the others will understand it.

Ladies and gentlemen, the last political events in Germany do *not* mean that something violent or revolutionary will happen. They mean simply a form of protest within the legitimate lines of the Constitution, and I think it is the very great advantage of modern democracy that you can feel the sentiments and the opinions of a big people from the constitutional vote and that is what these last elections mean. Even the Hitlerites, even these radicals of the Right, will not do anything violent. All they are asking for is not to become dishonest, not to become forced by politics into a situation which would make them loose their self-respect. They want to maintain their self-respect, and that is why they gave that warning to the world. (Applause)

THE CHAIRMAN: There is one tradition about FOREIGN POLICY ASSOCIATION meetings, that we always have an opportunity for questions and discussion. As I remember public dinners generally, this is about the

hour when the speaking usually begins. Now, we are not starting in on another hour or hour and a half, but there will be opportunity before we adjourn for a few questions addressed either to Mr. Dulles or to Dr. Schacht.

Before I ask for questions from the floor, there is one which has been handed to me which seems to me particularly pertinent, and the answer to which I myself am very much interested to hear. It refers to the fact that due to the fall in prices and the consequent rise in the value of gold, the reparation payments now required of Germany are perceptibly larger than at the time they were assessed. That is the basis of the question, which is this: *Why was the provision in the Dawes Plan that the amount of annual payments should change as the purchasing power of gold changed, omitted from the Young Plan?* Mr. Dulles, you are not one of the fathers of the Young Plan, but what is your guess?

Mr. Dulles: I will give one answer, and Dr. Schacht may give another. The Dawes Plan had two safeguarding provisions. One was that Germany's payments would vary with the purchasing power of gold, and the other was a so-called "prosperity index"—that Germany's payments would vary in accordance with this index of prosperity.

The Dawes Plan operated during five years of inflation, and the Young Plan Conference was held at the end of that period. By that time the Germans had come to believe that that formula was a one-way formula; that it could only work to increase Germany's payments, and they were very anxious to get rid of it. I venture to say that if the Young Conference had been held a year or two later on, we would have found some such formula still in the Plan.

Dr. Schacht: I can hardly add anything to that. Don't forget that the payments of the Young Plan were considered to reach over a period of nearly sixty years, and that of course might let the gold clause even work both ways. I think that if we had made an arrangement for, say, only ten years or so, we would have left it in.

I used the word "moratorium," ladies and gentlemen. This means only the moratorium of the conditional part of the Young Plan. I think I made myself clear that all the private investments in Germany and all the credits given to Germany by private people certainly do not fall under a moratorium. Germany will never ask for that but will pay them.

The Chairman: Where is the next question? May I remind you that ordinarily when I ask for a question I do not have in mind a request for a speech. Where is a question?

Mr. George Sylvester Viereck: Some years ago I had the pleasure of talking to Dr. Schacht in Berlin. It was during the Ruhr invasion, and I asked him, "Dr. Schacht, are you in favor of passive resistance?"

He said, "No, I am not. I am in favor of active resistance."

That rather appealed to me. I like Dr. Schacht's speech tonight. I think he is absolutely right. He has pointed out the financial absurdity of both the Dawes and the Young Plan.

THE CHAIRMAN: May we have your question, please?

MR. VIERECK: My question is this: *Why did he reject the moral issue involved? The Dawes Plan and the Young Plan and all these plans are as tainted and invalid as can be.*

THE CHAIRMAN: What is the question please?

MR. VIERECK: The question is this: *Should Germany pay one cent of reparation, whether or not she is able to do so, since the obligation to pay reparation is based upon a document that grows from fraud, corruption and trickery?*

DR. SCHACHT: I have abstained from discussing this question outside of my country, and I would always abstain from discussing that question if I am the guest at a party in a foreign country. But if Mr. Viereck will give me the pleasure of coming to see me in Berlin again, I will give him the answer.

THE CHAIRMAN: Well, I didn't believe that a dinner meeting could liven up like a Saturday luncheon. Where is the next question?

. . . . Mr. Warburg asks a question in reference to Mr. Schacht's statement that the lower officials are receiving now, as compared with pre-war, about 100 per cent; the medium grade 60 per cent; and the next 75 per cent. The question asked is: *Did Dr. Schacht refer to money income or to what we call real income measured in buying power?*

DR. SCHACHT: Real income in purchasing power.

MR. NORTON: *I want to ask Dr. Schacht, when he says so many of the Germans are earning less than $300 a year, if that makes allowance for the products of the farms which do not go into money and out again.*

DR. SCHACHT: They are of course included, and they constitute a very large percentage of those who earn not more than $300. I would like to say the life of the small farmer in Germany is perhaps the poorest today of any of the wage earners or income earners, while the life of the industrial workman has improved.

QUESTION: *Do I understand, Dr. Schacht, that you despair of any permanent export surplus from Germany under the present conditions of tariffs?*

DR. SCHACHT: I go back to history, and I know of only one instance where an industrial country has ever had an export surplus, and that was England up to 1854, when England was in an absolutely singular position. She was ahead in industry over all the other countries of the world, and that is why she had an export surplus although being an industrial country. Since that time, I have not known any industrial country which had an export surplus. They had an export surplus perhaps in that way, because they invested part of their machinery, part of their means of production, railroads and ships, locomotives, cars, electrical plant, and so on, in other countries, but leaving it there, taking their equity and getting interest on those foreign investments. That is how the balance was made. But an export surplus in goods, aside from these interests on foreign investments, has never been made up to this last moment when the United States of America became, through the war, so prosperous that they have an export surplus, but it depends partly on their raw materials.

THE CHAIRMAN: *The next question refers back to why there is no so-called safeguard gold clause in the Young Plan. The questioner asks whether that was due in part to the fact that there is no such safeguard clause in the inter-allied debt agreements with the United States.* Dr. Schacht says he doesn't think that has anything to do with it.

THE CHAIRMAN: I am not sure I got the next question exactly, but the questioner repeated, as he understood it, the figures that Dr. Schacht gave as to the payments by Germany abroad, approximately two billions on reparations, two billions on the surplus of imports over exports, and one billion and a half or thereabouts on interest. *He asked Dr. Schacht whether in addition to that Germany has to pay any debts to her citizens. In other words, does she have an internal debt? The question is, Does Germany have an internal debt comparable to the internal debts of the Allies?*

DR. SCHACHT: There is certainly an internal debt. I don't know exactly what the amount is, and this internal debt is of course much lower than the internal debts of almost every other country. The way this internal debt was wiped out was by taking away the claims from those who owned those claims. That means wiping out a claim from a citizen against his own government which makes the citizen poor and makes perhaps the government not richer because the government relies upon the citizen. So this is a juridical situation, but the fact that the debt has been wiped out has not added to the economic or social situation one bit.

QUESTION: I read an article by Dr. Schacht, I believe, in the Sunday *Herald-Tribune*—it was supported by Dr. Schacht anyway—where he mentioned the question of trade with hitherto undeveloped countries on which he has not touched tonight. While he said that he doesn't see that Germany can increase its percentage of world trade beyond 12 per cent, he

has not touched on the amount of actual world trade it can gain or the amount of increased world trade it can gain by exporting to these hitherto undeveloped countries. *I should be very glad to hear him briefly expand the argument that I read in that paper, namely, that if we can restore in the undeveloped countries confidence in the European and American countries that they had before the war, there is a great field for export trade which has hitherto been untouched.*

THE CHAIRMAN: I would ask Dr. Schacht that question except that I think he would properly say that to answer it adequately would require another speech, and I know he is too courteous a guest to undertake to do that at this hour. But I am sure we should all be glad if Dr. Schacht would say just a word about the thesis which I heard him develop on another occasion and which the speaker refers to, that is, the possibility of the great enlargement of foreign trade through some form of international cooperative effort in freeing the world from conditions in large portions of the world which today make trade impossible.

DR. SCHACHT: This matter came up at the Paris Conference when we saw that perhaps nobody might be willing to lose part of his trade in order to let it go to Germany for paying reparations, and so I suggested that the only way out of the situation would be an increase in world trade.

The war has set back world trade very much. In 1920, the trade of the world was not more than it was in 1902, and from 1902 to 1914, the increase in world trade was about 6½ per cent per year.

Now, in 1928, very recently, we have only reached the stage where the trade was just half of what it could have been if we had had no war. That shows how frightful the drawback on world trade from the war has been.

Then, I said, in order to give Germany a larger share in the trade of the world, we must try to increase the trade of the world so that the others may not lose, may even perhaps gain, but that Germany gains more than the others in order to pay reparations.

This has not been done so far because at the time of the Paris Conference, we were in a time of world-wide prosperity, and today we are in a world-wide depression. I think it is true that one thinks of such problems more easily in times of depression than in times of prosperity.

What I am emphasizing is that we should come together—at least all those countries which are of a similar industrial and social structure—and should try to create some joint authority perhaps a body of men who got their authority not from parliament but from the general feeling of the public—may I name a name here?—a man like Owen D. Young, who has never been in the legislature as far as I know and who nevertheless commands a great power of confidence in his country. I think in other coun-

tries there may be similar men who have an authority of their own; that means out of what they have done so far. Let them come together—economists, industrialists, bankers, central bankers, whoever it may be. Let them try to outline some scheme for developing those countries which would like to reach the same standard of living which we have reached so far and the people of which would be willing to work for that; and to export some of their country's products which we might be willing to accept, so that the standard of living of these countries may be raised over and beyond the present level which would give employment to those industrial countries which at present suffer from unemployment.

If this would be done under a joint economic cooperative authority, I think it would give the confidence to the public that here something was done which was good and sound, which would earn the interest, which would be a safe investment. We might perhaps by such an international authority bring back to the people the confidence which is lacking so much today when nobody dares to invest his money in a foreign country because he is afraid of all kinds of political interference.

That, I think, is a proposition which at least should be discussed. If there are other proposals, I am willing to discuss them, but I think the only thing which we must not do is to sit still and wait for betterment. I am not a man who is for resignation. I always stand for action. (Applause)

THE CHAIRMAN: I think that the time has come to say that the question period is ended, and to extend our thanks to Dr. Schacht and Mr. Dulles.

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